Audit's AUDIT PUBLICATIONS, INC. 500 FIFTH AVENUE, NEW YORK, N. Y. 10036 TELEPHONE (212) 868-1470

MONTHLY NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

# Realty Trust Review

April 20, 1970

## HOW MANY TRUSTS CAN THE TRUST MAKERS MAKE?

Suddenly it's starting to look like the spring of 1969 all over again. Newly organized realty trusts, this time many third-generation long-term trusts sponsored by major financial institutions, are lining up to offer shares to the public. Meanwhile the second generation trusts are filing proposed debenture and stock offerings to raise additional capital. It is all very reminiscent of conditions which lead to the May 1969 plunge in realty trust share prices-or is it?

First, let's get some perspective on what really has happened in the three and one-half months through mid-April. All told new and existing trusts raised $533.5 million in new capital, no mean feat considering that the outpouring of trust securities in 1969 raised $1.079 billion in that record year. Audit's tabulation comparing this year to date with all of last year shows:

PUBLIC TRUST OFFERINGS
(in millions)

| | | New Trusts | | Existing Trusts | |
|---|---|---|---|---|---|
| | No. | Equity | Debt. | Equity | Debt. |
| January | 1 | $12.5 | — | — | $ 35.0 |
| February | 1 | 65.0 | — | — | 100.0 |
| March | 3 | 86.0 | $60.0 | — | — |
| April (to 4/17) | 4 | 94.0 | 50.0 | $11.0 | 20.0 |
| TOTAL | | $257.5 | $110.0 | $11.0 | $155.0 |
| '69 TOTAL | 29 | $870.7 | $ 50.0 | $68.2 | $ 90.0 |

The capital raising feats of the new trusts in face of a choked capital market cannot be demeaned, but this is probably the result of the prestige of sponsors of the 1970 generation. To date this year's trusts have been sponsored by four commercial banks – American Fletcher of Indianapolis. Wachovia of Greensboro, N.C., the Barnett banking group of Florida, and City National Bank of Beverly Hills, Calif. — and two major life insurance companies– Connecticut General and Mutual of New York.

Moreover the prestige of trust sponsors is rapidly escalating: Bank of America, ($25.6 billion assets), Chase Manhattan ($20.5 billion). Wells Fargo ($5.9 billion) and First Pennsylvania Banking & Trust ($2.6 billion). These financial bluebloods are coming to play the leveraging game hard: Wells Fargo & Co., the parent one-bank holding company, has agreed to guarantee up to $100 million of commercial paper until April, 1972 (to go with a proposed $100 million all-equity offerings for its trust).

### Trust Market: $2½ Billion and Growing

Still, it's important to view these proposed offerings against a backdrop of a very rapidly expanding market for trust securities. When the first wave of trust securities began reaching the market early in 1969, all real estate trusts had a market value of about $500 million–about the same as a medium sized industrial–and the bulk of this was concentrated in two mortgage trusts, Continental and First Mortgage.

With last week's offering of MONY Mortgage Investors and Barnett Mortgage Trust, trust securities reached $2.54 billion market value, including $2.09 billion in equity and the remainder split between warrants ($98 million) and convertibles.

AUDIT'S tabulation of visible offerings amounts to about $1.02 billion and we regard no more than $700 million as really effective offerings for the near-term (table, p.2):

Hence the pending offerings would expand the market by another 30% or so. At this writing both new and operating trusts have about $ 41 million equity slated for offering yet in April, and literally dozens of other financial institutions are mulling $50 million or $100 million trusts. For instance, First National City Bank of New York ($19.6 billion assets)is widely reported to have a trust in gestation as part of its planned acquisition of mortgage banker Advance Mortgage



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Co. of Detroit. Whether this visible supply will ever reach market really depends upon two things:

1. **Growing institutional resistance to any offerings.** The capital markets have turned chaotic since AT&T unveiled the generous terms of its $1.5 billion debt and warrant offering. Unionamerica Mortgage Trust pulled back from its proposed $35 million convertible offering April 1 because commercial paper was cheaper, but American Century Mortgage was able to boost a planned $15 million debenture offering to $20 million April 16 (although it took a 7% coupon and 400,000 warrants to make the deal). This mixed reception is due in part to a growing reluctance by both analytical and institutional sources--including some early and big backers of trusts--to shun initial offerings whatever the credentials. In this market, who wants an instant discount, they argue. Hence the feeling that the field is getting overpopulated may brake the trust makers temporarily, just as it did a year ago.

2. **Widening acceptance of trusts by smaller investors.** The third-generation trusts mainly appeal to investors seeking income first and capital gains second, and hence are broadening the circle of trust investors. They thus are quite similar to the established equity trusts, which generally have had very stable market prices, while adding the sheen of a major financial bluechip. Sure a good share of major offerings of issues like Connecticut General and MONY Mortgage winds up in institutional hands initially but down the line these securities likely will move into individual hands. On balance we believe the realty trust is a most flexible financing vehicle which will continue to attract new categories of investors.

## VISIBLE SUPPLY OF REALTY TRUST SECURITIES

### NEW TRUSTS

| Trust (filed SEC) | Shares (000) | Wts. (000) | Max. Price | Equity (Mil. $) | Debt. (Mil. $) | Total (Mil. $) |
|---|---|---|---|---|---|---|
| ~~Bank of Am.(announced)~~ | NA | ---- | NA | 125.0 | ---- | 125.0 |
| ~~Beneficial Std. (4/2/70)~~ | 1,250 | ---- | 20 | 25.0 | ---- | 25.0 |
| ~~Burnham Mtg. (6/15/69)~~ | 2,250 | 1,125 | 40a | 45.0 | ---- | 45.0 |
| Cavanagh Mtg. (6/6/69) | 2,000 | 1,000 | 30a | 30.0 | ---- | 30.0 |
| ~~Chase Man. Bank (4/15/70)~~ | 3,600 | ---- | 150h | 90.0 | 60.0 | 150.0 |
| ~~Colorado Western (2/24/70)~~ | 200 | ---- | 12 | 2.4 | ---- | 2.4 |
| Empire Mtg. (6/20/69) | 750 | 750 | 20e | 15.0 | ---- | 15.0 |
| Federal Street Mtg. (12/2/69) | 600 | ---- | 10 | 6.0 | ---- | 6.0 |
| Fidelity Bond and Mtg. (6/20/69) | 1,250 | 250 | 100b | 25.0 | ---- | 25.0 |
| Fidelco Growth Inv.(3/17/70) | 1,200 | ---- | 25 | 30.0 | ---- | 30.0 |
| First Penn. Mtg. (4/2/70) | 1.250 | ---- | 500c | 25.0 | 25.0 | 50.0 |
| ~~Four Seasons Inv. (3/18/70)~~ | 1,250 | 1,250 | 20 | 25.0 | ---- | 25.0 |
| Gulf Mtg. & Realty (3/24/70) | 1,200 | ---- | 400c | 32.0 | 20.0 | 52.0 |
| ~~Inter-Island First Mtg. (7/25/69)~~ | 550 | ---- | 30 | 16.5 | ---- | 16.5 |
| ~~IRI Mortgage (6/10/69)~~ | 4,500 | 900 | 50b | 45.0 | ---- | 45.0P |
| ~~Marriott Inn Part. (9/4/69)~~ | 2,500 | 500 | 50b | 25.0 | ---- | 25.0P |
| M and T Mortgage Inv.(3/10/70) | 1,000 | ---- | 11 | 11.0 | ---- | 11.0 |
| ~~Mortgage and Equity (6/4/69)~~ | 3,008 | 3,008 | 15e | 45.1 | ---- | 45.1 |
| ~~Nationwide Realty Tr.(8/12/69)~~ | 500 | ---- | 10 | 5.0 | ---- | 5.0 |
| Nooney Mtg. Inv.(6/4/69) | 1,500 | 750 | 44a | 33.0 | ---- | 33.0 |
| ~~Realty Mtg. Inv.(6/13/69)~~ | 1,000 | 500 | 20a | 10.0 | ---- | 10.0 |
| Rosenthal Realty Inv.(12/5/69) | 1,250 | 250 | 100b | 25.0 | ---- | 25.0 |
| ~~Summit Properties (2/27/70)~~ | 130 | ---- | 13 1/2 | 1.8 | ---- | 1.8 |
| ~~Wells Fargo Mtg. Inv.(4/3/70)~~ | 5,000 | ---- | 20 | 100.0 | ---- | 100.0 |
| ~~Wharton Mtg. Inv.(7/9/69)~~ | 1,250 | 1,250e | 20 | 25.0 | ---- | 25.0 |
| TOTAL | | | | $817.8 | $105.0 | $922.8 |
| Over six months | | | | $319.6 | ---- | $319.6 |
| EFFECTIVE TOTAL | | | | $498.2 | $105.0 | $603 |

277.0

### EXISTING TRUSTS

| Trust | Shares | Wts. | Max. Price | Equity | Debt. | Total |
|---|---|---|---|---|---|---|
| Alison Mtg. | ---- | ---- | ---- | ---- | 15.0 | 15.0 |
| Assoc. Mtg. | 200 | ---- | E28 | 5.6 | 5.0 | 10.6 |
| North Amer. | 1,150g | ---- | E22 | 25.3 | ---- | 25.3 |
| Republic Mtg. | ---- | ---- | ---- | ---- | 15.0 | 15.0 |
| First Mtg. Inv. | ---- | ---- | ---- | ---- | 35.0 | 35.0 |
| TOTAL | | | | $30.9 | $70.0 | $100.9 |

a. Units of two shares and one warrant. b. Units of five shares and one warrant. c. Units of 25 shares, plus debentures evaluated at par. d. Units of 15 shares, plus debentures at par. e. Units of one share and one warrant. f. Units of 50 shares plus debentures at par. g. 200,000 shares for trust, rest for selling holders. h. Units of 6 shares, plus $100 debenture at par. p--Postponed.

New filings not included in "The Audit Guide to Investing in Realty Trusts," mailed to subscribers under separate cover, include:

Bank of America, nation's largest bank, plans a $125 million trust offering, with details to be supplied upon S.E.C. filing.

Chase Manhattan Mortgage Trust is sponsored by Chase Manhattan Corp. parent of the nation's second largest bank. The offering of $90 million equity and $60 million convertible debt will be made in units of six shares and $100 debentures at $250/unit. The debentures will be convertible at 10% above the share offering price of $25. Underwriter: Lehman Bros.

Wells Fargo Mortgage Investors, 464 California St., San Francisco, 94120, plans a 5 million share offering at $20 to gross $100 million. Wellsco Real Estate Management, subsidiary of one-bank holding company Wells Fargo & Co. will manage the trust, which will stress construction and development loans. Affiliated Wells Fargo Bank and Sonoma Mortgage presently have about $1.3 billion in mortgage loans and service $600 million loans for others. Underwriters: Eastman Dillon, Union Securities and Merrill, Lynch, Pierce, Fenner & Smith.

**WHO GETS WHAT FROM THE THIRD GENERATION TRUSTS?** More than anything else, the thrust, of major banks and insurance companies into trust sponsorhip means these institutions want a share of the real estate pie for the 1970s. But some obviously have doubts that the parent can secure all the capital needed and hence are turning to trusts as a public vehicle for raising additional funds.

Less appreciated is the fact that many third generation trusts are taking the role of long-term mortgage lenders instead of short-term construction lenders. They are stressing land purchase and leasebacks, leasehold mortgage financing and net lease financing, all the tools of the sophisticated income property lender. Almost all will have take some form of equity participations.

First, the sheer mechanics of achieving long-term objectives may mean that it will be years before investors can get a proper fix on the long-term trusts. The first hurdle is the requirement by New York and other state securities' commissioners that the investment of 60% of proceeds be disclosed at offering. In practice the third-generation trusts have tended to turn to investment in short-term construction loans and participations from banks and other financial institutions, loans which will take a year or so to roll over into longer term investments.

### How Much Kick in Equity Kickers?

Second, even when a long-term trust reaches the desired mix of investments, it will be literally years before any true value can be assigned to the equity participations of these trusts. Some idea of the complexity of evaluating the portfolio of long-term lender trusts surfaces in the preliminary prospectus of one trust, Gulf Mortgage and Realty Investments, which is purchasing participations in some long-term loans from its sponsor Gulf Life Holding Co. and affiliates. Some sample entries appear at the top of the next column. If we judge the equity trusts properly, yield on portfolio and hence dividend yield to investors may be expected to be somewhat lower than yields on short-term mortgage trusts. In other words investors will be expected to pay something extra for the equity kickers in the portfolio.

| Project | Investment | Partic. (000) | Est. Yield | Additional Consideration | Est. Maturity |
|---|---|---|---|---|---|
| Mobile Home Pk. | First mtg. | $675 | 10 1/2% | 37% ownership | Nov. '88 |
| | Second mtg. | 225 | 10 1/2% | | Nov. '78 |
| Motel | First Mtg. | 825 | 10 | 45% ownership | Oct. '90 |
| | Second Mtg. | 300 | 10 | | Oct. '80 |
| Motel | First Mtg. | 900 | 10 | 45% ownership | Dec. '90 |
| | Second Mtg. | 300 | 10 | | Dec. '80 |
| Industrial | Purchase / leaseback | 1,875 | 12 | 75% ownership | Sept. '90 |
| Whse. & Port terminal | First Mtg. | 375 | 9 | Wts. to buy 3,900 sh. Seatrain Lines, @ $24 to Sept. '80 | Sept. '92 |
| Land Dev. | First Mtg. | 1,444 | 10 | Wts. to buy 22,500 sh. GT Corp. @ $10 to Aug. '81 | Aug. '81 |
| Garden Apartment | First Mtg. | 1,275 | 9 | Pro rata share in 10% of gross rents over 80% occupancy | Dec. '95 |

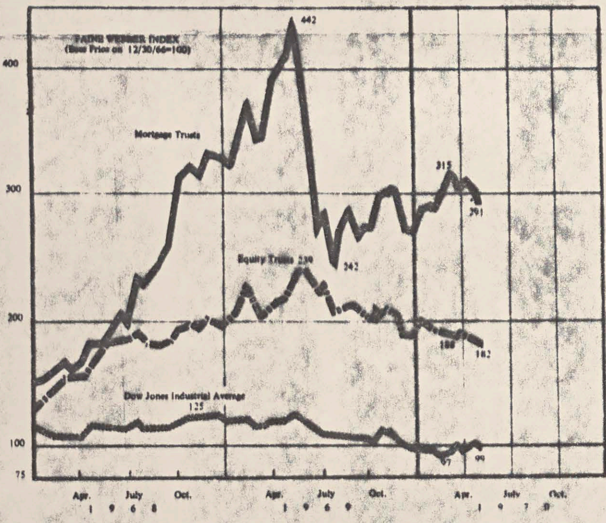
In the examples cited, direct ownership will have a value that could vary widely, depending on local conditions and one that would be difficult to measure without an appraisal. The pro rata share of rents is easier to assess, since this is a measurable quantity. In this case the warrants to buy shares in Seatrain Lines, an NYSE listed stock, have a measurable value, while the warrants for GT Corp., a regional company headquartered in Chattanooga, are less easily valued. And what value does one assign to the right to buy 25% of an Alabama land development company for $2,334 after Feb. 28, 1974, an item appearing in the American Century prospectus?

The equity kickers are the long-term trusts' protection against inflation. But the above merely means that it will be years before anyone really knows how much kick there will be in those equity kickers.

### What's in it for the Sponsors?

As suggested above, the long-term trusts are essentially vehicles for letting sponsors raise the long-term capital they need to keep supplying funds to established customers. The packaging of real estate debt into equity may well prove to be one of the most powerful discoveries of the 1970s, and one with vast implications for traditional thrift institutions.

Trust sponsors will not be able to look to their trusts for major profit distributions, since trust dividends do not qualify for the 85% corporate dividend exclusion and must be expected to go largely to public shareholders. Aside from the service aspect of the affiliated trust, the sponsors then will profit largely from operations of the investment management company. Since the trust sponsors intend relying upon existing personnel, the major benefit may be that mortgage department overhead is being carried by the trust. That's fallout; the acquisition of capital is the major goal.




**MORTGAGE TRUST SHARES UNDER NEW PRESSURE** Concern about fierce competition for capital is weighing-heavily on mortgage trust shares. The index compiled by Paine, Webber, Jackson & Curtis dropped 7.6% from last month, touching a 291 reading on April 16. The staccato announcement of major new trust offerings (see p. 2) plus the massive $1.5 billion AT&T debt and warrant offering add up to worry that trusts will not be able to leverage themselves as many entrants had planned.

Equity trusts continued weak with a moderate 3.2% decline while the Dow-Jones Industrials maintained a narrow trading range.

**SIX NEW TRUSTS REACH MARKET FOR $285 MILLION** Since mid-March six new realty trusts have raised $285 million in stock and debentures. Offerings by two major insurance companies dominated the month but shares of smaller trusts also shared in the offerings.

First Union Real Estate Equity and Mortgage Investments also raised $11 million with a 1,000,000 share offering at $11, with the bulk of proceeds to repay $3.2 million borrowed to acquire North Valley Shopping Center in Denver, $4 million to acquire a 13½% junior mortgage on an 835-unit apartment in mid-Manhattan, and $2 million in construction loan participations. American Century Mortgage Investors raised $20 million by selling 7% debentures convertible at $21, plus 400,000 attached warrants to buy additional shares at $23 until June 30, 1975.

Data on the six trust offerings are tabulated below. All are described in your Audit Guide. Of the six, Barnett, Citinational, and Lincoln will invest principally in short-term construction and development loans. Connecticut General and MONY Mortgage Investors will concentrate in long-term mortgage and equity interests, although short-term loans are being made initially. Goodrich will invest $7.0 million in short-term loans and acquire seven shopping centers from the principals and founders for shares and warrants.

**REALTY TRUSTS AT WORK**

Real Estate Investment Trust of America (ASE) increased its quarterly to $0.33/sh. when earnings for the February quarter rose to $0.38, vs. $0.30. Last November REITA issued 144,224 shares to acquire twelve realty parcels in Los Angeles from S.M. Bernard Co. and management estimates the transaction may add $0.05-$0.10/share to its November, 1970 earnings. The largest parcel, 20 acres in the Marina district west of Los Angeles, was leased to Cabot, Cabot & Forbes for industrial development on a participating lease basis. The shares are attractive for continued steady, moderate growth in earnings and dividends.

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**NEW REALTY TRUST OFFERINGS**

| Trust | Date | Shares ------000 | Wts. ------ | Offer Price | Gross Equity --------Mil. $ | Deb. | Net proceeds --------- |
|---|---|---|---|---|---|---|---|
| Barnett Mortgage Trust | 4/14 | 1,250 | 1,250 | 20a | $ 25.0 | ------ | $ 22.66 |
| Citinational Devel. Tr. | 4/7 | 400 | 400 | 20a | 8.0 | ------ | 7.18 |
| Connecticut General Mtg. | 3/17 | 3,000 | -------- | 1000b | 60.0 | 60.0 | 113.41 |
| Goodrich Investors Gp. | 4/7 | 1,000 | -------- | 11 | 11.0 | ------ | 91.75 |
| Lincoln Mtg. Inv. | 3/20 | 1,100 | -------- | 100c | 10.0 | 11.0 | 19.58 |
| MONY Mtg. Inv. | 4/14 | 5,000 | -------- | 500b | 50.0 | 50.0 | 94.42 |

a. Units of one share and one warrant. b. Units of 50 shares after evaluating debentures at par. c. Units of 10 shares after evaluating debentures at par.
*Debenture terms as follows: Connecticut General: 6 3/4% due 1990, conv.@ $22; Lincoln, 8% due 1990, conv. @$11; MONY Mortgage, 7% due 1990, conv.@ $11.